



H.R. 3648 – To amend the Internal Revenue Code of 1986 to exclude discharges of indebtedness on principal residences from gross income, and for other purposes

EXECUTIVE SUMMARY

H.R. 3648 was introduced by Representative Charles Rangel (D-NY) on September 25, 2007, and was ordered reported, as amended, by voice vote, from the House Ways and Means Committee on September 26, 2007. The bill will be considered under a closed rule which contains a self-executing amendment (See Floor Situation and Amendment sections for details).

The bill relieves individuals who receive debt forgiveness on a mortgage from having the sum of the forgiven debt treated as taxable income, effective for debts forgiven on or after January 1, 2007. H.R. 2648 suspends this tax law permanently, whereas a similar proposal issued by the President would have limited the exemption to a period of three years. H.R. 2648 offsets the estimated \$1.4 billion over ten years cost of this provision with a revenue raising provision that limits the current capital gains tax exemption on the sale of a second home; the President's proposal does not offset the cost of the decrease in taxes.

The bill also extends the tax deduction for the cost of private mortgage insurance for certain low-income individuals through the end of 2014 and lowers the threshold for buildings to qualify as cooperative housing corporations, which allows tenants access to more tax deductions.

FLOOR SITUATION

H.R. 3648 is being considered on the floor pursuant to a closed rule. The rule:

- Provides one hour of general debate equally divided and controlled by the Chairman and Ranking Republican Member of the Ways and Means Committee.
- Waives all points of order against consideration of the bill except those arising under clause 9 (earmarks) and 10 (PAYGO) of Rule XXI.
- Provides that the amendment in the nature of a substitute recommended by the Committee on Ways and Means now printed in the bill, modified by the amendment printed in the Rules Committee report, shall be considered as adopted

and the bill, as amended, shall be considered as read. (See Amendment section below for details)

**Note: A self-executing amendment to the bill is included in the Rule. This amendment will become part of the text of H.R. 3648 if the Rule is passed by the House of Representatives. The amendment will not receive independent consideration on the House floor.*

- Waives all points of order against provisions of the bill, as amended. This waiver does not affect the point of order available under clause 9 (earmarks) of rule XXI.
- Provides one motion to recommit with or without instructions.
- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the bill to a time designated by the Speaker.

This legislation was introduced by Representative Charles Rangel (D-NY) on September 25, 2007. The bill was ordered reported, as amended, by voice vote, from the House Ways and Means Committee on September 26, 2007.

This legislation is expected to be considered on the floor of the House of Representatives on October 5, 2007.

SUMMARY

H.R. 3648 relieves individuals who receive debt forgiveness on a mortgage from having the sum of the forgiven debt treated as taxable income, effective for debts forgiven on or after January 1, 2007. (Section 2)

**Note: H.R. 3648 makes this provision permanent. In a proposal issued by the President, a similar provision was limited to a three year, temporary suspension of this tax law.*

***Note: The Joint Committee on Taxation (JCT) estimates that this provision will cost \$1.4 billion over the 2008-2017 period.*

The bill extends the tax deduction for the cost of private mortgage insurance for certain low-income individuals through the end of 2014. (Section 3)

**Note: The JCT estimates that this provision will decrease federal revenues by \$570 million over the 2008-2017 period.*

H.R. 3648 lowers the threshold for buildings to qualify as cooperative housing corporations, which thereby allows tenants of the corporations to receive tax deductions on their proportionate share of real estate taxes and mortgage interest paid on the property. (Section 4)

**Note: The JCT estimates that this provision will decrease federal revenues by \$22 million over the 2008-2017 period.*

The bill limits the current capital gains tax exemption on the sale of a second home. (Section 5)

**Note: The JCT estimates that this provision will increase federal revenues by \$2.0 billion over the 2008-2017 period.*

BACKGROUND

The number of American consumers that are defaulting on their mortgage payments has increased as average prices for homes sold in the United States have continued to decline. The majority of the loan defaults have been on “sub-prime” home loans that are designed for home buyers with damaged credit or limited credit histories. Worldwide markets have reacted with investors moving their money away from American mortgage backed securities and in August average stock prices in U.S. markets declined as investors worried of the impact of more mortgage delinquencies. Multiple U.S. mortgage lenders have filed for bankruptcy and hedge funds that invested heavily in the sub-prime mortgage market have experienced record losses.

The Federal Reserve Bank responded by cutting interest rates in early August, and again in September, stating that “Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today’s action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.” ([Board of Governors of the Federal Reserve System, September 18, 2007 Release](#))

On August 31, 2007, President Bush announced a plan with “...steps that the federal government can take to help homeowners in need of assistance avoid foreclosure. These steps will help homeowners having difficulty paying their mortgages and ensure that the problems now disrupting the housing industry do not happen again. The fundamentals of America's economy are strong – economic growth is healthy, wages are rising, and unemployment is low. The markets are in a period of transition as participants are re-assessing and re-pricing risk. One area that has shown particular strain is the mortgage market, particularly the subprime sector.”

H.R. 3648 is similar to step two of the President’s plan in which: “The President calls on Congress to change a key housing provision of the federal tax code so it does not punish families who are forced to sell their homes for less than their mortgage is worth. Current tax law counts cancelled mortgage debt on primary residences as taxable income. For example, if the value of a home declines and \$20,000 of the homeowner's loan is forgiven, the tax code treats that \$20,000 as taxable income. The President proposes

temporary relief to ensure that cancelled mortgage debt on a primary residence is not counted as income.” ([Fact Sheet on the President’s Mortgage Plan](#))

AMENDMENTS

(The summary below is reprinted as it appears in the Rules Committee Report on the bill)

Self Executing Amendment included in the Rule: The amendment would place a \$2 million cap on the maximum amount of forgiven debt that would be eligible for tax relief. Second, it would further limit tax relief to situations where the debt is forgiven because of a decrease in home value or because of the financial hardship on the borrower. (This Amendment affects Section 2 of H.R. 3648)

ADDITIONAL VIEWS

The Statement of Administration Policy on H.R. 3648, issued on October 2, 2007, states that “The Administration supports House passage of H.R. 3648, which advances the President’s proposal to help financially troubled homeowners by shielding mortgage write-offs from taxation...the Administration strongly believes this relief should be temporary to assist homeowners during the current mortgage market transition period and to avoid distorting consumer and lender decisions on new mortgage loans...The Administration looks forward to working with Congress to narrow the scope of the bill and ensure that it addresses current difficulties without the potential for influencing future behavior. Also, the Administration does not think it is necessary for this tax relief to be offset by revenue increases.”

COST

A cost estimate from the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimates that enacting H.R. 3648 would decrease revenues by \$179 million in 2008 and increase revenues by \$151 million over the 2008-2012 period and by \$34 million over the 2008-2017 period. The Congressional Budget Office estimates that enacting the bill would not affect federal spending. The JCT has determined that the bill contains one private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA) – the reduction in the exclusion for capital gains on principal residences for nonqualified use.

STAFF CONTACT

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